No. 86-1735

Supreme Court, U.S.
FILED
JUL 18 1987
JOSEPH F. SPANIOL, JR.
CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1986

SHOE WORLD, INC. d/b/a GUSSINI,

Petitioner,

– against –

EL GRECO LEATHER PRODUCTS COMPANY, INC. d/b/a CANDIE'S INTERNATIONAL,

Respondent.

RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

STEVEN B. POKOTILOW*
BLUM KAPLAN
Attorneys for Respondent El Greco Leather Products Company, Inc. d/b/a Candie's International
1120 Avenue of the Americas
New York, New York 10036
(212) 704-0400

Of Counsel:
ROBERT S. WEISBEIN, ESQ.
BLUM KAPLAN
1120 Avenue of the Americas
New York, New York 10036

WAYNE J. WHITE, ESQ.
2 Harbor Park Drive
Port Washington, New York 11050-4678

**Counsel of Record*

July 18, 1987

38 pp

Questions Presented For Review

1. Whether goods manufactured under agreement with the trademark owner, which goods are subsequently rejected for good cause and then distributed by the manufacturer without the authorization of the trademark owner, may be considered "genuine" for purposes of avoiding trademark infringement?

2. When a trademark owner sets forth contractual safeguards with its manufacturer to protect its trademark, can a third party benefit from the manufacturer's violation of such safeguards by the unauthorized distribution and sale of goods which are not "genuine"?

3. Did the Court of Appeals for the Second Circuit err in reversing, as a matter of law, the district court's finding that the goods in issue were

"genuine" when the agreement between the trademark owner and the manufacturer governing the manufacture of the goods required certain conditions be met before the goods would be authorized by the trademark owner?

Statement Under Rule 21.1

The caption of the case in this Court contains the name of all parties.

Statement Under Rule 28.1

There are no parent companies, subsididaries and affiliates of El Greco Leather Products Company, Inc. d/b/a Candie's International.

TABLE OF CONTENTS

	Page
Questions Presented for Review ...	I
Statement Pursuant to Rule 21.1 ..	III
Statement Pursuant to Rule 28.1 ..	IV
Table of Authorities	VI
Table of Abbreviations	IX
Introduction	1
Statement of Facts	5
Reasons for Denying the Writ	6
Conclusion	23

TABLE OF AUTHORITIES

Cases:	Page
Bowmar Instrument Corp. v. Continental Microsystems, Inc., 497 F.Supp. 947 (S.D.N.Y. 1980)	23
Burger King Corp. v. Mason, 710 F.2d 1480 (11th Cir. 1983), cert. denied, 465 U.S. 1102 (1984)	18
De Acosta v. Brown, 146 F.2d 408, (2d Cir. 1944), cert. denied, 325 U.S. 862 (1945)	22
Fleishman Distilling Corp. v. Maier Brewing Co., 314 F.2d 149 (9th Cir. 1963), cert. denied, 374 U.S. 320 (1963)	22
General Baking Co. v. Gorman, 3 F.2d 891 (1st Cir. 1925), cert. denied, 268 U.S. 705 (1925)	19
Hamilton v. Liverpool London and Globe Insurance Co., 136 U.S. 242 (1890)	7
Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp., 707 F.2d 1054 (9th Cir. 1983)	12,13, 14,15

Page

Professional Golfers Ass'n v. Bankers Life & Casualty Co., 514 F.2d 665 (5th Cir. 1975) 18,26

Stahly, Inc. v. M.H. Jacobs Co., 183 F.2d 914, 917 (7th Cir. 1950), cert. denied, 340 U.S. 896 (1950) 19

Vivitar Corp. v. United States, 761 F.2d 1552 (Fed. Cir. 1985) 4

W.E. Basset Co. v. Revlon, Co., 435 F.2d 656 (2d Cir. 1970) 22

Weil Ceramics & Glass, Inc. v. Dash, 618 F.Supp. 700 (D.N.J. 1985) 14

Statutes:

15 U.S.C. §1114(1) 5

Other Authorities

2 J. McCarthy, Trademarks and Unfair Competition §25.5 (2d ed. 1984) 23

5 S. Williston, A Treatise on the Law of Contracts §616 (W. Jaeger 3d ed. 1961) 7

Page

J. Calamari & J. Perillo, Contracts §3-12 (2d ed. 1977) 7

TABLE OF ABBREVIATIONS

PA ..... Petitioner's Appendix

No. 86-1735

IN THE

Supreme Court of The United States

October Term, 1986

SHOE WORLD, INC. d/b/a GUSSINI,

Petitioner,

v.

EL GRECO LEATHER PRODUCTS CO., INC., d/b/a CANDIE'S INTERNATIONAL

Respondent.

RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

INTRODUCTION

The Petition for Writ of Certiorari in this case is without merit because the decision of the Court of Appeals is well-founded in law, is not inconsistent with any decision of another circuit, and reaches the only possible

legal conclusion under the factual circumstances which exist.

The Petition involves a trademark infringement suit in which shoes bearing the CANDIE'S trademark sold by petitioner, Shoe World, Inc. ("Shoe World"), were found to infringe the respondent trademark owner's, El Greco Leather Products Company, Inc.'s ("El Greco"), registered trademark. The shoes sold by Shoe World were purchased from a foreign manufacturer of El Greco and were sold to Shoe World without El Greco's authorization. The Second Circuit found the shoes in question not to be "genuine" and, as such, an infringement of the CANDIE'S trademark.

The entire argument of Shoe World is premised on the contention that the shoes in question were "genuine" since El Greco contracted with the

factory, authorized the affixation of the trademark CANDIE'S to the shoes, and had the opportunity to exercise its right of inspection (through its agent) during the manufacturing process.

Shoe World's definition of "genuine" goods can be summarized by the following formula: Authorization of affixation of the trademark by the trademark holder + inspection = genuine goods. Shoe World's definition, however, is overly simplistic in that it fails to take into account what happens where, as here, the order for the goods is properly cancelled in accordance with the terms of the contract and the goods are then sold by the manufacturer and distributed in commerce without the trademark holder's authorization.[1/]

---

[1] Shoe World seems to place this case on equal footing with "grey goods"

El Greco properly cancelled the order for the shoes in question. The record is undisputed that a certificate of inspection was never issued by El Greco as required by the clear and unequivocal terms of the letter of credit. Thus, El Greco never authorized

---

Footnote 1 continued

cases. This case does not involve grey market goods. Grey market goods are goods produced by a foreign manufacturer bearing the manufacturer's trademark which are legally purchased abroad from authorized distributors, and are then imported by persons other than the trademark holder and without the markholder's permission are sold in competition with goods of the United States trademark owner of the same mark. Vivitar Corp. v. United States, 761 F.2d 1552, 1555 (Fed. Cir. 1985). In the instant case the shoes were not manufactured by a licensee of El Greco, but by a subcontractor. The shoes were to be manufactured solely for the purpose of resale in the United States by El Greco. The shoes were never authorized by El Greco because El Greco cancelled the order for the goods. Grey market goods cases are clearly inapposite with cases which involve th cancellation of trademarked goods such as in the instant case.

the distribution and sale of the shoes. Under the circumstances, the shoes could not be "genuine" because they did not have El Greco's final "stamp of approval". Without such approval the reputation and goodwill of El Greco did not stand behind the merchandise. Shoe World's sale of shoes bearing the famous CANDIE'S trademark, but which are not "genuine", is an infringement of El Greco's trademark rights in violation of §32 of the Lanham Act. 15 U.S.C. §1114.

STATEMENT OF FACTS

The facts involved in this case are accurately set forth at pages PA 5 to PA 9 of the Court of Appeals' decision appended to the Petition.

We merely emphasize that the express terms of the agreement between El Greco and the Brazilian factory, Calzados

Solemio Ltda. ("Solemio"), for the manufacture of the shoes in question are clear, unambiguous and undisputed. One term of the agreement requires that a certificate of inspection be signed before the goods are to be delivered and payment made. Signing of the certificate of inspection is a material term of the agreement between El Greco and Solemio and, as such, is a condition precedent to CANDIE'S shoes becoming "genuine". The signing of the certificate certifies that the merchandise has been "approved for shipment in accordance with buyer's delivery and quality specifications." PA 6 (emphasis added).

REASONS FOR DENYING THE WRIT

The Court of Appeals properly decided as a matter of law that the shoes in question are not "genuine".

In the instant case, the issue of whether the shoes are "genuine" is a question of fundamental black letter contract law. It is well-settled that interpretation of a contract is a question of law to be decided by an examination of the four corners of the contract. Hamilton v. Liverpool London and Globe Insurance Co., 136 U.S. 242 (1890).[2/]

The Court of Appeals in finding the shoes not to be "genuine" recognized that the terms of the letter of credit prepared by El Greco required "the inspection certificate as condition for Solemic to draw upon the letter

---

[2] Where evidence extrinsic to the undisputed terms of a contract is not presented, the interpretation of the contract is a pure question of law. 5 S. Williston, A Treatise on the Law of Contracts §616 (W. Jaeger 3d ed. 1961); J. Calamari & J. Perillo, Contracts §3-12, at 124 (2d ed. 1977).

of credit." PA 14. As the district court recognized:

> No shoes are approved or accepted unless and until a principal of Sapatus [El Greco's agent in Brazil] signs an Inspection Certificate certifying that the lot of shoes to which it relates fully complies with plaintiff's [El Greco's] standards and specifications.

PA 79-80.

No such certificates of inspection were ever signed or issued with respect to shoe lots F and G. Shoe World ignores this fact. Instead Shoe World argues that the court should determine the question of genuineness not upon a review of the express terms of the letter of credit, but rather upon a factual analysis of the totality of the circumstances surrounding the entire transaction between El Greco and Solemio. In support of its position Shoe World cites to Judge Altimari's statement

in the dissent:

> Determinations of genuineness ... frequently necessitate an assessment of ... the owner's intent when farming out its manufacturing and labelling duties.

PA 25.

Shoe World's position, however, overlooks the fact that the intent of the parties was evidenced by a writing and can be discerned within the four corners of the letter of credit. As found by the Court of Appeals "the certificates of inspection required in this case were an integral part of appellant's [El Greco's] effort at quality control." PA 14-15 (emphasis added). A review of the totality of the circumstances would therefore only be appropriate where there is no written agreement memorializing the intent of the parties or where the terms of the agreement are unclear.

Shoe World's argues that the Court of Appeals' decision was premised on an erroneous legal conclusion that the sine qua non for determining genuineness was the issuance by the trademark owner of an inspection certificate. This argument misstates and mischaracterizes the court's holding. The Court of Appeals' decision merely recognizes that certain events were required to occur before El Greco would accept the shoes in question. One such event is the signing of the certificate of inspection.

El Greco's refusal to sign the certificate of inspection resulted from the factory's inability to deliver the shoes on time.[3/] By reason of the

---

[3] It is interesting to note that Shoe World argues that it is an "unwitting player" and, as such, should not be penalized because of El Greco's

express terms of the letter of credit, El Greco's refusal to issue the certificate of inspection deprived the factory of any right it had to use the CANDIE'S trademark. The record is uncontroverted that the letter of credit expressly restricts the sale of shoes bearing the CANDIE'S mark to companies other than El Greco in the United States. PA 14 and 84. Thus, the unauthorized CANDIE'S shoes sold by Solemio to an agent of Shoe World and eventually sold in the United States by Shoe World were never

---

Footnote 3 continued

failure to protect itself contractually. Petition 17. However, El Greco did, in fact, employ specific and unambiguous contractual safeguards, including, inter alia, a requirement in the letter of credit for a certificate of inspection. It was this very safeguard which the Court of Appeals recognized to be controlling the determination whether the goods were "genuine" or not.

"genuine".

To meet the narrow parameters of Supreme Court Rule 17 and establish that this case is appropriate for a grant of certiorari, Shoe World urges, albeit erroneously, that a conflict exists between the decision below of the Second Circuit and the Ninth Circuit's holding in Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp., 707 F.2d 1054 (9th Cir. 1983). However, these cases, when analyzed on their facts and holdings are easily distinguished.

In Monte Carlo the issue on appeal was whether an action would lie under California state law for trademark infringement against the foreign manufacturer and its U.S. subsidiary for the "unauthorized sale of genuine Monte Carlo shirts" and

not whether the shirts were in fact "genuine". Id. at 1057 (emphasis added). The Ninth Circuit's opinion started from the premise that the goods were "genuine". The Ninth Circuit's decision is devoid of any discussion of the basis for finding the goods to be "genuine". The only pertinent finding appears in the statement of facts that "Monte Carlo rejected the shirts after they arrived in this country because the documents necessary to clear the shipment arrived too late for Christmas sales." Id. at 1055 (emphasis added).

Shoe World strenuously urges that the aforequoted language in Monte Carlo stands for the legal principle that merchandise which is cancelled for late delivery is in every case "genuine" and the sale of "genuine" goods cannot give rise to a finding of likelihood

of confusion. Such an analysis misses the point. The Monte Carlo decision gives no guidance as to the methodology used to determine when goods are "genuine".

Under the circumstances any reading of the Monte Carlo case that suggests that the issue of genuineness was determined therein is unjustifiably broad and misplaced. Nowhere in Monte Carlo did the court review unequivocal and undisputed terms of an agreement of the type between El Greco and Solemio.[4/] For this reason, any suggestion that a conflict exists is

---

[4] Even assuming arguendo that genuine goods cannot cause the consuming public to be likely to be confused, a point which El Greco does not concede, the shoes in question could not be "genuine" because all of the terms of the parties agreement had not been met, i.e., issuance of the certificate of inspection. See Weil Ceramics &

based on a wishful analysis of Monte Carlo that does not stand up to judicial scrutiny when considered in light of the facts herein.

Nor is there any basis for Shoe World's contention that the Court of Appeal's decision in the instant case has a far-reaching remedial effect on licensees and manufacturers as a whole. Rather, the Court of Appeals merely decided, as a matter of law, that the CANDIE'S shoes in question are not "genuine" because the intent of the parties as demonstrated by the undisputed terms of the agreement required Sapatus, as El Greco's agent, to sign the certificate of inspection. Whether El Greco cancelled the order

Footnote 4 continued

Glass, Inc. v. Dash, 618 F.Supp. 700 (D.N.J. 1985) [holding that genuine goods may cause confusion].

and refused to sign the inspection certificate because of quality problems, production delays or any other reason makes no difference.[5/] PA 7.

El Greco as the trademark holder required, and Solemio as the manufacturer agreed, that the shoes would only be approved by El Greco when the certificate of inspection was signed. Without a signed certificate, the merchandise never acquired the trademark holder's final authorization and approval. Having not met the express conditions of the letter of credit, the Second Circuit properly concluded "as a matter

---

[5] The issue whether El Greco properly cancelled the order is a question of breach of contract properly litigated between Solemio and El Greco and not Shoe World. It is interesting to note that the factory did not sue El Greco for breach of contract, nor did it complain to El Greco that it believed the cancellation was unlawful.

of law" that the shoes in question could not be "genuine".

The requirement of issuing a certificate of inspection was incorporated into the letter of credit as a contractual safeguard to give the trademark holder ultimate and final control over merchandise bearing its trademark so as to avoid the situation were unauthorized trademarked merchandise improperly makes its way into the stream of commerce. As correctly pointed out by the Court of Appeals, "The mere act of ordering a product to be labeled with a trademark does not deprive its holder of the right to control the product and the trademark." PA 16.

The result in this matter is not different from the more usual situation involving either the termination of or a violation of a trademark license

agreement. El Greco's cancellation of the order stripped the factory of whatever limited authority it had to use the CANDIES'S trademark. See, e.g., Burger King Corp. v. Mason, 710 F.2d 1480, 1493 (11th Cir. 1983), cert. denied, 465 U.S. 1102 (1984) ("continued trademark use by one whose trademark license has been cancelled satisfies the likelihood of confusion test and constitutes trademark infringement"); Professional Golfers Ass'n v. Bankers Life & Casualty Co., 514 F.2d 665, 670 (5th Cir. 1975) ("once the contract ends, a licensee's right to the mark ends, and any subsequent use constitutes infringement").

Not only do the trademark laws protect the trademark owner from having its contractors and licensees use its mark in an unauthorized manner, but

it also seeks as a matter of public policy to protect the public from confusion. Consumers purchase goods with a known trademark affixed thereto in the belief that they can rely upon the manufacturer's marketing symbol as a means by which to judge that the goods are "genuine" and consistent with the manufacturer's reputation. It is the notion that the public has the right to be protected when it purchases a product bearing a famous trademark which transcends all else. General Baking Co. v. Gorman, 3 F.2d 891, 893 (1st Cir. 1925), cert. denied, 268 U.S. 705 (1925); Stahly, Inc. v. M.H. Jacobs Co., 183 F.2d 914, 917 (7th Cir. 1950), cert. denied, 340 U.S. 896 (1950).

Faced with no dispute as to the public policy underpinning the use

of trademarks, the narrow issue decided by the Court of Appeals was the issue of genuineness. In doing so, the majority relied on simple but well rooted principles of contract law. It looked to the four corners of the letter of credit between El Greco and its manufacturer and found that a material condition had not been met, i.e., the issuance of the inspection certificate. It therefore determined as a matter of law that the goods could not be "genuine".

To hold otherwise is to encourage a rule that will require courts to interpret every such agreement, as a matter of fact and to provide no judicial certainty, even when the parties have clearly manifested their intent in writing.

If Shoe World's premise that the

issue of genuineness is to be determined as a question of fact were followed, courts will be required to intervene in trademark disputes that otherwise can be resolved by a mere inspection of the four corners of the agreement between the trademark holder and the manufacturer. A trademark owner must know that he can negotiate contractual safeguards with his manufacturer to prevent the unauthorized use of his valuable marketing symbol without the fear that a court upon reviewing the agreement will find the safeguards to be meaningless.

Having found the CANDIE'S shoes not to be "genuine", the Court of Appeals went on to hold that Shoe World's sale of the unauthorized shoes infringed El Greco's trademark rights in violation of §32(1) of the Lanham Act, 15 U.S.C.

§1114(1). The fact that Shoe World was not involved either in the manufacture or the affixation of the CANDIE'S trademark to the shoes and may be an "innocent infringer" is of no consequence.[6/] Shoe World's sale of the shoes is sufficient "use" of the mark for it to be liable for the results of such infringement and the fact that it may have lacked knowledge of its supplier's infringement provides no defense. See De Acosta v. Brown, 146 F.2d 408, 410-12 (2d Cir. 1944),

---

[6] The trademark laws only recognize the doctrine of "innocent infringement" in connection with §32(2) of the Lanham Act, 15 U.S.C. §1114(2), as it pertains to printers and publishers. Otherwise, the intent of the defendant is a factor to be considered by the court in establishing likelihood of confusion and damages. Fleischman Distilling Corp. v. Maier Brewing Co., 314 F.2d 149 (9th Cir. 1963), cert. denied, 374 U.S. 830 (1963); W.E. Basset Co. v. Revlon, Inc., 435 F.2d 656, 664 (2d Cir. 1970).

cert. denied, 325 U.S. 862 (1945); Bowmar Instrument Corp. v. Continental Microsystems, Inc., 497 F.Supp. 947, 957 (S.D.N.Y. 1980); 2 J. McCarthy, Trademarks and Unfair Competition §25.5, at 179 (2d ed. 1984).

CONCLUSION

The conflict between the circuits argued by Shoe World is illusory and can be reconciled on its facts. The Court of Appeals' decision is well-founded in fact and law. In finding the goods not to be "genuine", the majority recognized that the terms of the agreement between El Greco and Solemio were specific, certain and contained within the four corners of the letter of credit. One such term required a certificate of inspection to be issued certifying that the merchandise had been approved for

shipment in accordance with El Greco's delivery and quality specifications. In the absence of such a certificate the goods could not be "genuine" as a matter of law.

Shoe World would have the district court rewrite the agreement between El Greco and Solemio by allowing the court to redline provisions thereof that are objected to by Shoe World, a non-party to the agreement. Such a premise, if adopted by the Court, would require judicial intervention to interpret the terms agreed to by the parties and would result in judicial uncertainty in every case involving cancelled goods.

Under the Shoe World theory, once a trademark owner has given his permission to a manufacturer to affix the trademark to the product and has

exercised his right to inspect the merchandise for purposes of quality control, the courts inquiry is permitted to disregard the intent of the parties as expressed in their written agreement and may find as question of fact that the goods are "geniune". Such a rule would destroy traditional concepts of contract law, would tie the hands of the trademark owner from taking precautions necessary to maintain the goodwill and reputation of his trademark and would open the courts to a floodgate of so-called "genuine" goods cases that would normally be determined by existing contract principles.

It is a fundamental tenet of United States trademark law that a trademark owner has a duty to control the nature and quality of the products on which his trademark is used. Such a duty

is imposed because trademarks are the symbols on which the public has come to rely to assure the reliability, performance and quality of the particular product. Professional Golfers Association of America v. Bankers Life & Casualty Co., 514 F.2d 665, 670-71 (5th Cir. 1975). Here, as part of El Greco's quality assurance procedures, the letter of credit conditioned payment upon the issuance of the inspection certificate by Sapatus. By refusing to issue the inspection certificate El Greco affirmatively demonstrated that the shoes were not approved or accepted and therefore could never be "genuine".

In view of the foregoing, this Court should deny this Petition as Shoe World has failed to show any "special and important reasons" pursuant

to Supreme Court Rule 17 justifying an investment by this Court of its time and expertise.

Dated: July 18, 1987

Respectfully submitted,

BLUM KAPLAN
1120 Avenue of the Americas
New York, New York 10036

By: _____
Steven B. Pokotilow

Attorney for Respondent

Of Counsel:

Robert S. Weisbein, Esq.
BLUM KAPLAN
1120 Avenue of the Americas
New York, New York 10036

Wayne J. White, Esq.
2 Harbor Park Drive
Port Washington, New York 11050-4678